

MEMORANDUM

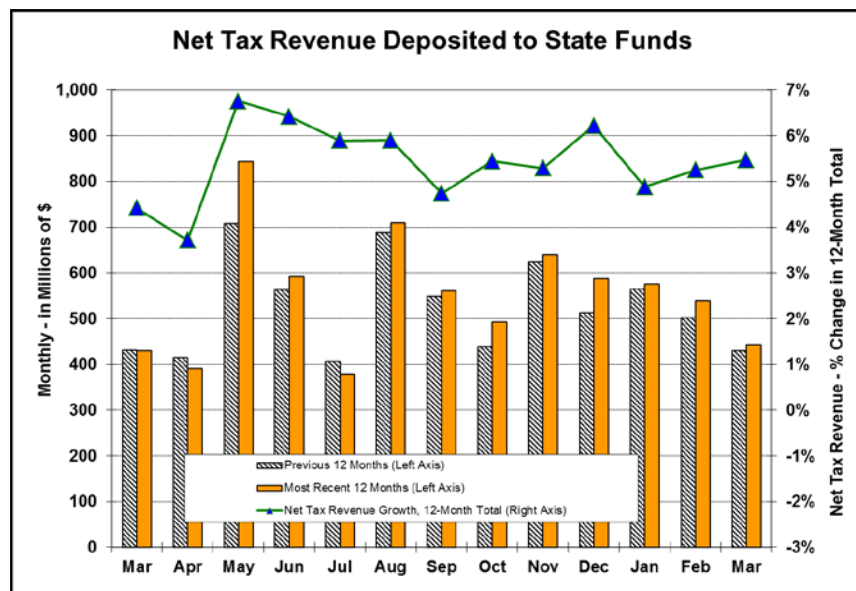
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: April 24, 2012

Twelve-month Total Net Tax Receipts Through March 31, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending March 2012 with comparisons to the previous twelve months. March 2011 to March 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Net tax revenue across all State funds increased 3.0% in March and is up 5.5% over the most recent 12 months. The monthly gain would have been higher than 3.0%, but the 2012 Leap Year allowed deposits of withholding and sales tax that would normally have been deposited to March to be deposited in February. Although income tax withholding deposits have been improving, indicating that wage income is increasing, taxable vehicle fuel sale growth is near

zero and stagnant fuel consumption could indicate slow economic growth. At \$6.753 billion, annual revenue remains below the prerecession peak level of \$6.760 billion (October 2008). The most recent six months have been marked by strong corporate and vehicle use tax receipts but low growth in fuel tax deposits.

Month of March Comparison

March net tax receipts totaled \$442.7 million, an increase of \$13.1 million (3.0%) compared to March 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$1.6 million, - 1.0%) – Gross income tax deposits increased \$4.1 million in March, but the low growth amount was due to a calendar issue that provided a boost to February receipts at the expense of March. Individual income tax refunds issued in March were \$5.7 million higher than last March.
- Sales/Use Tax (negative \$11.3 million, -7.4%)
 - Road Use Tax Fund use tax (fee for new registration) increased \$3.3 million in March. Monthly comparisons have shown increases in 11 of the past 13 months, with seven of the months with a percentage increase of 9.3% or higher.
 - Gross General Fund sales/use tax receipts decreased \$12.3 million, but the decrease was due to a calendar issue that provided a boost to February receipts at the expense of March. Regular sales tax refunds increased \$1.5 million and school infrastructure transfers out increased \$0.9 million.
- Corporate Income Tax (positive \$19.3 million, 95.5%) – Deposits of corporate income tax receipts continued the recent trend, growing significantly in March. Corporate income tax refunds increased \$0.4 million.
- Fuel Tax (positive \$3.3 million, 10.2%) – Gross fuel tax deposits were unchanged for the month while tax refunds decreased \$3.3 million.
- Cigarette and Tobacco Taxes (positive \$7.0 million, 41.7%) – Deposit timing issues have produced volatility in recent cigarette and tobacco tax monthly amounts. The \$106.0 million annual limit for deposits to the Health Care Trust Fund was reached in late December 2011. Cigarette and tobacco tax deposits for the remainder of FY 2012 will be deposited to the General Fund.
- Gambling Tax (positive \$1.1 million, 3.5%) – The new casino in Lyon County (opened June 2011) will provide monthly year-over-year revenue increases throughout FY 2012.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending March 2012, net revenue from all taxes deposited to State funds totaled \$6.753 billion, an increase of \$350.5 million (5.5%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$149.5 million, 5.4%) – Individual income tax continues to post good year-over-year annual growth numbers and the income tax withholding component has shown improvement over the past two months
- Sales/Use Tax (positive \$44.2 million, 2.0%) – With the March decrease, annual net sales/use tax revenue has again dropped below the pre-recession (November 2008) peak.

- Corporate Income Tax (positive \$134.8 million, 63.8%) – Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 3.7% below the prerecession peak (September 2008 = \$359.2 million).
- Fuel Tax (positive \$1.8 million, 0.4%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 0.1% while taxable diesel sales increased a fraction of a percent. Both growth percentages have been trending down in recent months and for gasoline this marks the first negative annual growth reading since June 2009. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 4.4% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) are only 0.8% above the prerecession (August 2007) peak for all taxed gallons sold.
- Gambling Tax (positive \$9.5 million, 3.3%) – According to Racing and Gaming Commission statistics, six of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending March 2012. The combined AGR growth for the 18 facilities was positive 6.2% over the previous 12-month period, with the Lyon County casino contributing 56.3% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.455 billion.
- Insurance Premium Tax (negative \$2.8 million, - 2.8%)
- Cigarette and Tobacco Tax (positive \$1.8 million, 0.8%)

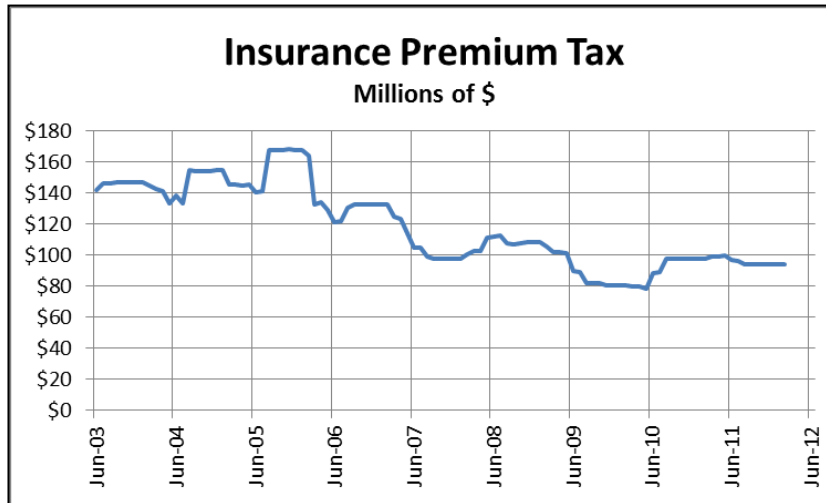
Tax Spotlight – Insurance Premium Tax

The insurance premium tax (Iowa Code chapters [432](#) and [432A](#)) is imposed on the premiums of all insurance companies except fraternal beneficiary associations. The tax is administered by the Iowa Insurance Division, with the Iowa Department of Revenue serving as the depositing entity for the tax receipts.

The Iowa insurance premium tax dates back to at least 1851 (Chapter 464, [1851 Code of Iowa](#)). The rate was established at 2.0%, with one-half of the revenue at that time devoted to county purposes and one-half to the State. The tax rate has been as high as 2.5%. Prior to legislation enacted during the 2002 Legislative Session (see SF 2318, Insurance Tax Rate Reduction Act), the insurance premium tax rate for most forms of insurance was 2.0%. As a result of that legislation, the tax rate was reduced in annual 0.25% increments until the rate reached 1.0%. For life and health insurance companies and associations and mutual health services corporations, the reduction started with policies issued in calendar year 2003 and reached 1.0% for 2006. For other insurance companies and associations (property and casualty), the reduction started with 2004 and reached 1.0 % for 2007.

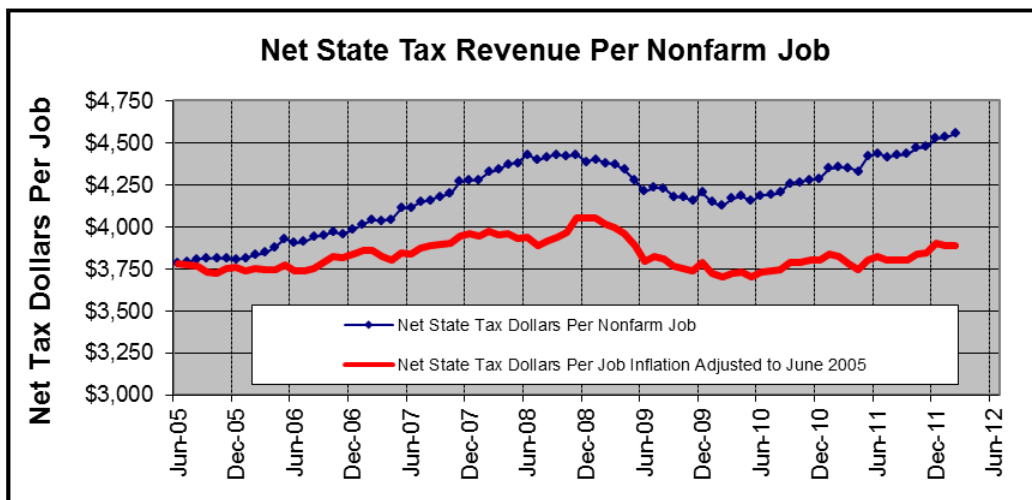
Insurance premium tax reports from all insurers are to be filed before March 1 of the year following the calendar year the tax is due. Prepayments are due in June and August and equal 50.0% of the company's previous year tax liability. Tax receipts from the insurance premium tax are deposited in the State General Fund.

Iowa, like most or perhaps all other states, provides for a retaliatory insurance premium tax against insurance companies not located in the State. The retaliatory tax requires non-Iowa companies to pay either the Iowa tax rate, or the tax rate an Iowa company would be subjected to in the company's home state, if that rate is higher than the Iowa rate.



Tax Revenue and Employment

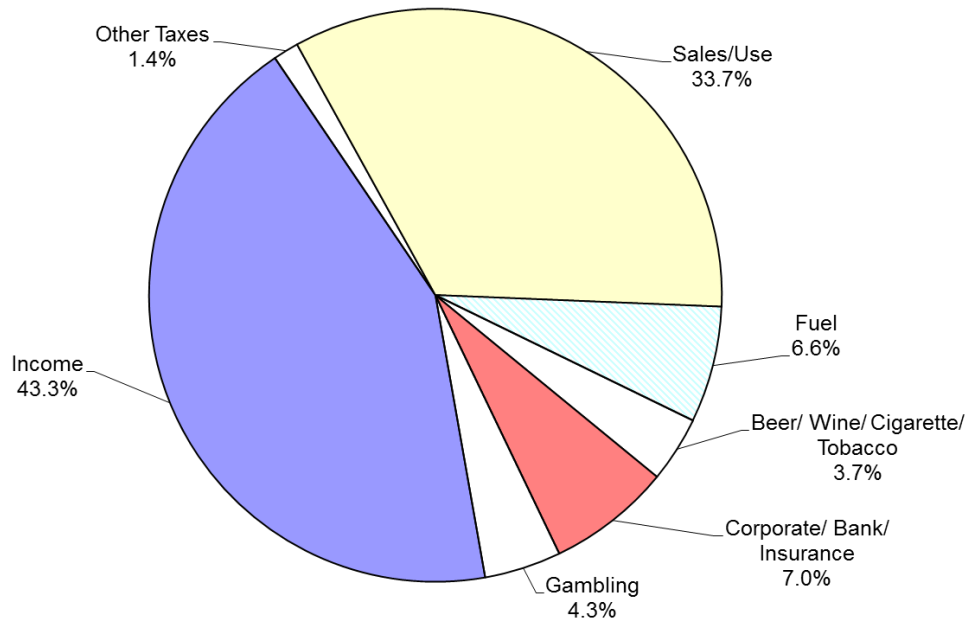
The average reading for Iowa nonfarm employment over the 12 months ending February 2012 is 1,480,200 and net State tax receipts over the same 12 months totaled \$6.740 billion, or \$4,553 per nonfarm job. This is \$768 (20.3%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 17.1%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 0.5% per year since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



Net State Tax Revenue - Twelve Months Ending March 2012

Net Revenue = \$6.753 Billion

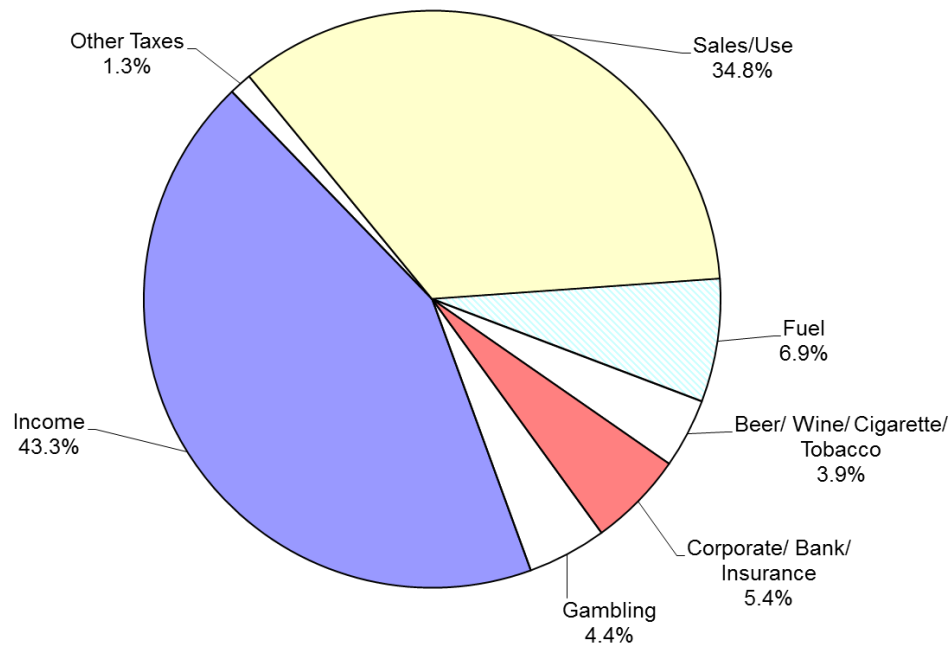
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending March 2011

Net Revenue = \$6.403 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of March 2011	Month of March 2012	March \$ Change	March % Change
Banking	\$ 32.2	\$ 27.2	\$ - 5.0	-15.5%	\$ 3.1	\$ - 2.6	\$ - 5.7	-183.9%
Beer & Wine	21.3	21.6	0.3	1.4%	1.6	1.5	- 0.1	-6.3%
Cigarette & Tobacco	227.7	229.5	1.8	0.8%	16.8	23.8	7.0	41.7%
Corporate Income	211.3	346.1	134.8	63.8%	20.2	39.5	19.3	95.5%
Fuel	441.3	443.1	1.8	0.4%	32.5	35.8	3.3	10.2%
Gambling	283.7	293.2	9.5	3.3%	31.3	32.4	1.1	3.5%
Individual Income	2,775.0	2,924.5	149.5	5.4%	156.5	154.9	- 1.6	-1.0%
Inheritance	63.4	71.8	8.4	13.2%	5.3	3.4	- 1.9	-35.8%
Insurance	99.4	96.6	- 2.8	-2.8%	7.1	9.4	2.3	32.4%
Other Taxes	4.1	11.1	7.0	170.7%	0.8	1.4	0.6	75.0%
Real Estate Transfer	13.8	14.8	1.0	7.2%	0.8	0.9	0.1	12.5%
Sales/Use	2,229.6	2,273.8	44.2	2.0%	153.6	142.3	- 11.3	-7.4%
Total Net Taxes	\$ 6,402.8	\$ 6,753.3	\$ 350.5	5.5%	\$ 429.6	\$ 442.7	\$ 13.1	3.0%
Gross Tax & Refunds								
Gross Tax	\$ 7,651.5	\$ 8,077.5	\$ 426.0	5.6%	\$ 627.9	\$ 651.2	\$ 23.3	3.7%
Tax Refunds	\$ - 1,248.6	\$ - 1,324.3	\$ - 75.7	6.1%	\$ - 198.4	\$ - 208.5	\$ - 10.1	5.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,449.0	\$ 5,652.7	\$ 203.7	3.7%	\$ 345.6	\$ 350.5	\$ 4.9	1.4%
Road Use Tax Fund	\$ 719.4	\$ 744.8	\$ 25.4	3.5%	\$ 52.3	\$ 59.0	\$ 6.7	12.8%
Non-GF Gambling	\$ 215.8	\$ 224.4	\$ 8.6	4.0%	\$ 30.2	\$ 32.1	\$ 1.9	6.3%
Other State Funds	\$ 18.8	\$ 131.4	\$ 112.6	598.9%	\$ 1.4	\$ 1.2	\$ - 0.2	-14.3%
Local Option Taxes *	\$ 798.7	\$ 850.3	\$ 51.6	6.5%	\$ 83.0	\$ 85.5	\$ 2.5	3.0%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.